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BT Written Evidence to the National Assembly for Wales Finance Committee Inquiry into Public-Private Partnerships

BT in Wales

BT is barely recognisable from the company it was five years ago, having transformed itself from a narrowband, fixed-line communications business, to a broadband company harnessing the power of modern digital communications. The company has diversified from the more traditional engineering/telecoms base and the majority of our people are now engaged in the service side of our business; software specialists and ICT project directors managing the business processes of global companies, as well as call centre operators and other support staff.

BT employs 3,800 people in Wales and with salaries of 30% above the Welsh average this makes a contribution of £237 million annually to the Welsh economy. BT is proud of the many multi-million pound investments it has made in Wales recently, including a £90 million Data Centre in Cardiff Bay, the £150 million Test Bed facility in Swansea, and the ongoing investment of £460 million in Wales on BT's pioneering 21st Century Network, aimed at providing customers with faster, cheaper and more reliable communications networks.

BT has a major stake in the Welsh economy and the social fabric of Wales. Last year, BT spent £1 million on programmes in Wales to promote digital inclusion, such as our Community Connections scheme - computers, broadband and training for small organisations - and schemes encouraging citizens to use information communications technology in their every day lives.

Introduction

BT Wales welcomes the opportunity to provide evidence to the Assembly's Finance Committee Inquiry into Public-Private Partnerships. BT has significant experience of delivering substantial elements of public services using its own flexible and innovative partnership models. BT has learnt a considerable amount about the public sector ethos and has adapted private sector thinking to drive efficiencies and benefits into the delivery of services to communities across the UK. For this reason the former UK Office of the Deputy Prime Minister commented that:

"Four out of the top six best-achieving local authorities for cost efficiencies gained through e-government were strategic partnerships with BT. Each saved between £21.9million and £46million"

Flexible joint venture partnerships are increasingly seen as an alternative to outsourcing in the drive to reduce public sector expenditure and improve services. BT's innovative risk sharing and transaction-based models provide public organisations with flexible and integrated solutions, dedicated financial

support and world-class expertise

With the recent announcement of a tight financial settlement for local government in Wales and the Assembly Government's desire to deliver more efficient public services to the people of Wales, BT is keen to contribute to the debate around the use of different investment models.

Sharing risk and rewards with a partner

The public sector is continually exploring new ways to deliver more efficient

service levels - without excessive risk and investment. An increasingly popular method of achieving expensive public service goals is by forming long-term partnerships with the private sector or public-private partnerships (PPPs) - where financial risks and rewards are shared between the two parties. In such a partnership, the private sector typically designs, builds, finances and operates services based on specifications provided by the public sector.

The aim is to transfer some or all of the risk to the private sector contractor, whilst creating a sustainable long-term partnership and delivering high quality public services. BT employs innovative and flexible risk sharing and transaction-based models which offer public organisations the opportunity to transform their business. BT has already established several key strategic partnerships which provide public organisations in England, Scotland and Northern Ireland with a range of innovative business solutions. Our approach is founded upon extensive

experience in the public sector marketplace throughout the United Kingdom, working with partners such as Liverpool, Suffolk and Rotherham Councils, The City of Edinburgh Council, the Scottish Government and Land Registers of Northern Ireland, to name a few.

The purpose of this paper is to demonstrate that PPPs, whilst often complex, are a valuable tool for the public sector, and that many different models are available to suit different needs and desired outcomes.

Public Private Partnerships - an evolving model

Initially, the term Public Private Partnerships (PPP) referred to contractual agreements formed between a public agency and private sector entity that allowed for greater private sector participation in the delivery of projects. Traditionally, private sector participation was limited to separate planning, design or construction contracts on a fee for service basis - based on the public agency's specifications. In such a scenario then the cost of capital is a major variable in the decisions as to whether PPPs are a suitable vehicle for public agencies seeking routes to deliver key public services.

What has become more prevalent in recent years though has been the proliferation of PPPs where there has been a major expansion of the private sector's role. The reasons behind this growth in scope are numerous but largely focus on allowing the public agencies to tap private sector technical, management and financial resources and expertise in new ways to achieve certain public agency objectives.

These objectives have included:

better cost and schedule certainty,

supplementing in-house staff,

introducing innovative technology applications,

specialised expertise; or

access to private capital.

The role of the private sector in delivering specialised public services has grown considerably across the UK, but more so in England, Scotland and Northern Ireland, than in Wales. The expansion of the private sector has been made palatable to the public sector because of the efficiencies that industry can deliver, which in many cases have proved unattainable to public agencies, and because the private sector either assumes the whole, or part of, the risk. In return, the private sector is given the opportunity to form sustainable, long-term partnerships in service delivery.

In the case of the information, communications and technology (ICT) industry, the expansion into the public sector has seen the growth of a highly specialised market focusing on the delivery of key public services, employing a significant number of highly trained employees who are paid substantially more than average salaries. Wales itself has been slow to establish this type of service sector due to the limited opportunities that have been historically created by the Welsh public sector.

According to the latest round of Institute for Electronic Governance (IEG) submissions, for example, the top six most improved local authorities in England all have private partners

UK Local Authority - Efficiency Gains 04/5 - 07/8

West Sussex County Council £48M

Liverpool City Council* £46M

Essex County Council* £43M

Suffolk County Council* £30M

Surrey County Council £29M

Rotherham Metropolitan Borough Council* £22M

** denotes: in partnership with BT

It is for this reason that BT wishes to draw the attention of the Assembly's Finance Committee to the fact that the most significant benefits of PPPs have not been around the cost of capital but on the returns made and outcomes delivered through true partnership between the private and public sectors.

BT's Experience of Partnership with the public sector

BT has broad and proven experience of working with the public sector to transform public services. Often the transformation will be billed as a technical transformation, with the implementation of leading edge technologies. But technologies alone do not deliver success. This is something we absolutely recognise. In order to get the most from the new technologies, processes need to change and people need to work in a different way. This requires cultural and behavioural changes, which is vital for successful implementation and outcomes.

BT has considerable experience in quantifying and delivering cashable and non-cashable savings. 'Cashable' savings are defined as a direct saving or benefit that has been released as the result of efficiency. In our experience, this is typically achieved as part of a business transformation or efficiency programme. Efficiencies are usually delivered by reducing headcount to perform a series of tasks: the tasks being re-engineered or re-designed in a more efficient way in order to deliver the same or better business results using fewer resources. It is in this way that quantifiable savings can be achieved.

Another example of 'cashable' savings is in the area of procurement spend. We have worked with a number of councils in helping them transform their end-to-end procurement service resulting in these organisations saving substantial cashable amounts on procurement addressable spend. As a direct result of re-engineering the process, we have also managed to reduce the number of resources to manage the whole process by introducing industry-standard category management policies and procedures in addition to streamlining to 'cradle to grave' procurement process (namely the procure to pay functions).

These benefits/savings are typically defined in a business case. In our joint ventures with local authorities, BT has shared the risk of delivering the benefit with the local authority. The extent of risk sharing to achieve the requisite benefits varies between each local authority. The authority then has a choice as to how it wishes to divest the saving. They can channel some savings into improving other services either to drive up customer satisfaction or performance (or both).

'Non-cashable' savings are defined as savings that do not necessarily lead to lower costs in service delivery, but could lead to better improvements in performance. Examples of these savings can be defined as increasing the throughput of an individual, resulting in increased performance and a lower unit cost of delivering a service. Whilst a direct cash benefit is not being realised, the organisation is seeing a direct benefit elsewhere (in terms of performance).

We have a great track record in working with local authorities to transform service delivery and improve customer experience. In the last few years, we have built strong and successful partnerships with a number of local authorities across the country. Our three main joint ventures are:

Liverpool Direct Limited (LDL) - partnership with Liverpool City Council

Customer Service Direct (CSD) - partnership with Suffolk County and Mid Suffolk District Councils

Rotherham Brought Together (RBT) - a partnership with Rotherham Metropolitan Borough Council

Case Study: Liverpool Direct Limited (LDL)

In 2001 BT created a joint venture, Liverpool Direct Limited (LDL), with Liverpool City Council worth £300 million. This is a 10 year contract to provide the council's call-centre, ICT, HR & Payroll and Revenues and Benefits services. Employees from both organisations are seconded, rather than outsourced, into the joint venture, with council employees retaining the same pay and conditions as before. In total nearly 800 people from both organisations are now part of the joint venture.

With 350 seats, the LDL call centre is now the largest council-run call centre in the UK. It is open 24 hours-a-day, seven-days a week, allowing people to get in touch with the council at any time of the day or night. It is the first point of contact for all citizens wanting to access council services. The call-centre receives more than 50,000 calls a week. Nine out of ten enquiries are resolved first time without the call having to be passed to another department. Services have been redesigned so that they can be delivered seamlessly across the various channels accessible to the citizens. Working closely with the authority has:

reduced abandoned calls in all areas, from 35% down to less than 10%

supported reduction in vehicle related crime by 27%,

implemented 57 process improvements in Planning and Control,

increased Benefit claims processed in 14 days by over 30%, and

improved council tax collection by 1% over the same period last year.

the time taken to process a housing benefit claim has been reduced from 143 days to 28 days.

£70m owed to Liverpool Council has been collected

A further £45m has been generated from improved business rate collection

LDL also operates a number of one-stop-shops across the city providing services directly to the local community. A translation service is available in each one-stop-shop to allow citizens whose first language is not English to communicate freely with advisors, request services and information. These centres are open 6 days a week from 8 am to 6 pm. The advisors in these centres aim to resolve 8 out of 10 queries at first point of contact.

LDL now provides services on behalf of other public sector organisations, for example managing the licensing of private security firms on behalf of the Security Industries Authority, contributing to local economic growth and protecting local jobs.

LDL is also making online services available at the city's libraries. Many of Liverpool's 24 libraries are open seven days a week, and 230 computers have been introduced, giving people free internet and e-mail access, and allowing everyone in the city to use new technology.

70% of Council's performance indicators improved within 12 months, and have now moved into the upper quartile

the electronic telephone directory saves £60,000 every year

In December 2006, Liverpool City Council extended their existing partnership with BT which had been in place since 2001 by an extra 5 years - the contract end date is 2017.

Case Study: Suffolk - Customer Services Direct (CSD)

In May 2004 Suffolk County Council (SCC) in conjunction with Mid Suffolk District Council (MSDC) signed a 10-year partnership contract with BT, and established a Joint Venture (JV) company called Customer Service Direct (CSD). Staff from the councils and BT were then seconded to the JV to work alongside each other to plan and deliver the transformation, and at the same time maintain day to day services to their customers.

CSD is unique as it is the first organisation in the UK giving local people access to county and district council services from a single point of contact. CSD has opened three walk-in centres in Stowmarket, Needham Market and Eye during the past year, established a telephone contact service and a transactional web site. Residents and businesses can access over 400 services in the most convenient way for them, and no longer need to know which council provides the service they need.

During the first year telephone waiting times for customers fell dramatically and the number of customers getting their enquiries or problems resolved in one go rose from 46% to 80%.

CSD brings together all the councils' disparate customer facing staff, into a single customer facing organisation which delivers services through a range of electronic and face to face channels. The scope of the partnership also includes the centralisation of internal services in HR, Finance and ICT.

Case Study: Rotherham - Rotherham Brought Together (RBT)

In 2003, BT and Rotherham Metropolitan Borough Council launched Rotherham Brought Together (RBT), a £150 million, 12-year public-private partnership to improve and deliver services to citizens electronically. The partnership is helping the Council to improve service delivery in the following areas:

Revenues and benefits

Operational Human Resources and Payroll

Procurements

Rotherham Connect (a contact centre environment, integrating the council's front and back-office systems)

ICT

RBT is using BT's transformation and technology integration expertise to transform RMBC into a seamless customer focused organisation that can innovate and drive change, but also inspire and develop employees to deliver increasingly effective and efficient services.

The aim of Rotherham Connect is to provide all customers with access to a range of services easily and in ways that it suits them.

This vision is being achieved through a multi-channel, 100 seat contact centre, using a range of publicised "golden numbers" to enable citizens to contact the council and apply for services. A face-to-face customer service centre has also been opened in the centre of Rotherham, with 6 out of town centres planned for the near future. These centres provide one-stop access to a range of services provided jointly by the partnership and the councils, such as revenues and benefits, cashier payments, housing, etc.

The partnership has also utilised its vast technological knowledge and experience to enable a range of electronic channels such as electronic web services and video conferencing to extend the options available to the citizen.

The largest service delivered through the contact centre is Streetpride, an initiative launched through RBT in response to citizens concerns about the environment they live in. This service was launched in September 2003 to tackle concerns such as litter, graffiti, crime and vandalism. The service has a single golden number which is widely publicised and used by citizens to report any issues and concerns.

The achievements in the implementation of the partnership and improvement in service delivery have been recognised by numerous nominations and awards, some of which are:

Beacon Award for Fostering Business Growth - ODPM 2003

Guardian Newspaper Public Service Award for Innovation and Progress: recruitment and retention initiative for flexible working/home working strategies - 2005

LGC Environment Award for Streetpride - 2005

Rotherham Connect were 1 of 3 runners-up in the best CRM project for a Public Sector organisation category of the annual awards

organised by CRM Magazine

Critical Success Factors

The success of these projects is wholly due to the commitment shown by all parties in the partnership, and particularly the enthusiasm of the people involved. In all three cases, those same people were working for the local authority before the involvement of BT. So what changed?

All staff underwent a rigorous training and development programme containing both hard and soft skills and managing change (using such frameworks as Kotters 8 steps to transformational change)

Performance, Review and Development programmes were introduced along with recognition and rewards schemes to value their efforts

A skills transition approach was developed to retrain staff whose skills were no longer required.

A common vision and set of values were established and brought to life via a series of workshops and other events

Good behaviours were rewarded, bad behaviours no longer accepted

Blame cultures eradicated to release the innovation often held back by staff for fear of failure

Career paths were generated and family friendly and flexible operating hours were introduced.

Other BT examples of innovative commercial partnerships

Case Study: Planning and building a partnership in Edinburgh

BT is central to The City of Edinburgh Council's 'Smart City' transformation and has successfully delivered back office transformation as well as a number of public-facing projects - including Planning and Building Standards (P&BS). BT is working in partnership with The City of Edinburgh Council to supply the necessary technology, people and processes. The project is funded through a risk and reward basis over ten years, allowing the council to invest significantly more in development and technology upgrades to improve service delivery.

Under the private finance initiative (PFI) agreement, BT initially financed the work

with a contribution from the council. To recoup its costs, BT makes a charge each time a transaction is completed on the new system. The council was thereby able to take advantage of a powerful new system and the substantial benefits that it offers, without having to raise the necessary capital upfront.

Case Study: Disclosure Scotland - helping enhance public safety

Disclosure Scotland was established by the Scottish Government to carry out criminal history checks. Its aims are to enhance security, increase protection of children and vulnerable adults, to widen access to data and to enable more informed recruitment decisions. The service was developed as a public/private

partnership (PPP) between the Scottish Government and BT. Each organisation is jointly responsible for various aspects of the day-to-day service. BT provided most of the initial investment and is making a return via the transaction of Disclosures requested by public and private organisations. BT designed and developed the Disclosure Scotland system which can handle a high demand for disclosure certificates, as well as enabling communication between Disclosure

Scotland and the UK Police Forces.

Case Study: BT's partnership with LRNI

Land Registers of Northern Ireland (LRNI) is at the forefront of the modernising government agenda since the introduction of its pioneering Internet portal landweb direct. BT signed a £45 million, 12-year partnership agreement with LRNI, with an option to extend this by a further five years. BT and LRNI jointly transformed the organisation from paper-intensive to completely electronic as part of their pioneering private finance initiative (PFI). New systems delivery was financed by BT, which charges a certain amount per transaction, but only after the system began generating revenue for LRNI. This transaction-based partnership enables LRNI to take advantage of its new systems without having to raise a prohibitive amount of capital.

Within three years of rollout, the Land Registry's online service landweb direct

achieved 93.6 % per cent market recognition (2005 annual customer survey). By November 2003, online transactions surpassed the number of manual

transactions and by 2006 "landweb direct" accounted for 71 per cent of total LRNI transactions. By August 2005 over 50 per cent of all solicitor companies in NI were actively using "landweb direct" - accounting for around 80 per cent of total transaction volumes generated by solicitors. The combination of the back-office and online service have enabled LRNI to achieve annual growth and improved efficiency and the expanded customer base includes the police, law searchers, banks and other local and central government departments. Solicitors now account for only 53 per cent of the total customer base, from a high of 93%.

What are the key benefits of PPPs?

PPPs provide benefits by allocating the responsibilities to the party - either public or private - that is best positioned, in terms of expertise and resources, to carry out the activity or service that will produce the desired outcomes. With PPPs, this is accomplished by specifying the roles, risks and rewards contractually, so as to provide incentives for maximum performance and the flexibility necessary to achieve the desired results.

Projects are likely to benefit from PPPs when tight schedules, complex design and implementation or innovative finance are involved. In such cases, PPPs are beneficial because of their ability to provide:

Expedited project completion by grouping multiple responsibilities in a single contract (such as combined design and implementation);

access to specialised expertise (such as financial management or ICT expertise);

access to proprietary technology;

relief from staff burdens (such as maintenance);

ability to apply special incentives and disincentives to improve project performance; and,

access to private investment and innovative finance to augment scarce resources.

Delivery of cost savings

Improving the quality of public services

Enhancing the experience of staff through training and development, wider career opportunities and more varied work experience.

Managing people sensitively

BT has an excellent record of managing its 106,000 members of staff, from paying 30% above the Welsh average salary in Wales and having one of the lowest absenteeism rates of any industry, to retaining talented people through development programmes, and rewarding our people with bonus schemes and other benefits.

Recognising that people satisfaction is the key to the success of these transformational partnerships, and that staff deserve to be treated fairly, BT has developed a specific service - BT Local Government Services Ltd (BT LGS Ltd) - dedicated to dealing with the transfer or secondment of staff.

BT LGS Ltd (Local Government Services) is part of the BT Group, dedicated exclusively to managing people who are transferred or seconded as part of a transformational partnership with BT's local government customers, and **supports and transforms BT's local government customers**. The establishment of BT LGS allows contract specific terms and conditions, union representation and pension arrangements to be put in place for people specifically working on local government contracts.

BT LGS is the preferred employer in BT Group for all new opportunities involving people transfer in Local Government. The management team at BT LGS aims to make the transfer process for all staff as simple and straightforward as possible. Once the transfer or employment has taken place it will provide all stated services in a clear and professional manner to all its employees.

BT LGS is flexible, and recognising that one size doesn't fit all, the company has different models for different transformational partnerships to suit the differing needs of staff and local authorities across the country.

Evidence from Wales

In Wales, BT has little evidence to cite, largely because the role of the private sector in the delivery of public services is so restricted.

There are some examples of partnerships with the public sector which have worked well, but they are few in number and small in size, and cannot be described as 'transformational'.

For the purposes of illustrating the potential that a public private partnership has in Wales, we have selected the example of flexible working in Powys County Council. This case study may not be on the transformational scale of previous examples used in this paper, but it is nonetheless an effective public/private partnership.

Case study: Powys County Council - flexible working

BT flexible working is aimed at achieving significant cost savings and productivity increases for Powys County Council, while providing a better work life balance for staff.

Powys is a largely upland and rural county covering some 2,000 square miles, which is about a quarter of the area of Wales. With only one person to every ten acres it is one of the most sparsely populated local authorities in the UK. This presents a challenge for Powys County Council, the unitary authority responsible for delivering a wide range of services to the population of over 129,000 people. The Council has an annual budget of more than £210 million and employs around 8,500 people, many of whom are based in Llandrindod Wells, Brecon,

Welshpool, or Newtown with a number of smaller satellite offices across the county.

Powys County Council chose to engage with BT to deliver a fully managed flexible working service. Initially focusing on home-based and mobile work styles, it is intended that the programme will extend to support the council's entire workforce, broadening the range of work styles available to include nomadic and in building workers.

The BT flexible working model combines a number of different solutions including virtual business numbers, audioconferencing facilities, remote data back up, and other network services. Alongside these are less traditional services such as virtual business addresses for home workers.

The flexible working solution implemented by Powys County Council is already

beginning to deliver on its promise. Accommodation costs are reducing through more effective use of office space and council property. Staff productivity is increasing and so is the work life balance of individuals, with people having

greater personal control of their working environment.

Conclusion

As demonstrated, BT is involved in bespoke and innovative partnerships which have proved that public-private partnerships can work extremely well, providing benefits to local government citizens, in terms of faster and more reliable services, and benefits to the authority, in terms of cost and management savings. In the first half of a 10-year, £300 million project - in which BT has so far invested more than £50 million - Liverpool Direct has already helped the council to reduce its cost base by over £100 million over five years and reduce its headcount from 19,000 to 13,000. Audit Commission performance indicators now place 70 per cent of Liverpool's key services in the upper quartile of the industry standard, and for example, Liverpool now has a near perfect business rates collection - at 98.9% - and has achieved its highest ever level of council tax collection - 96.5%.

It is a sad reflection that many of the case studies used as examples in this paper are from beyond the Welsh border. It is a source of immense frustration to BT and to other private sector companies in Wales that there are few examples of innovative public-private partnerships in the country. As a company with a large base in Wales, both in terms of numbers and quality of employees, as well as capital assets and on-going multi-million pound investments, it is saddening that many of our highly skilled staff are working on transformational business solutions, not for the Welsh market, but for the UK and global market.

BT feels that the pace of transformational change in the public sector in Wales, particularly at local government level, is painfully slow, and that recent reports aimed at introducing change (such as Making the Connections - Delivering Beyond Boundaries November 2006 and A Shared Responsibility March 2007) have had little impact thus far.

BT believes that to deliver the transformational change in public service delivery that is desired, to achieve efficiencies and to deliver better services to citizens, particularly given the very tight local government settlement this year, the involvement of the private sector is critical.

With large-scale transformation comes calculated risk. The common unifying thread which runs through all BT's successful models of strategic partnership is visionary leadership. Each venture has an inspirational leader at its helm whose role is to make it happen and whose attitude is "can do and will do". For Wales to successfully embrace public private partnerships, it needs bold leaders at all levels in WAG and Local Government, who are willing to step up to the mark, acknowledge the risk, accept responsibility and make the required change happen.

A Welsh version of this paper is available on request.

BT would welcome the opportunity to expand on its experience through a presentation to the Assembly's Finance Committee and to answer any questions that the Committee might have.

5th December 2007